Discussion Series C No. 9

Publication Extracts Which Present Diversified Viewpoints On The Question

FARM PRICES -- HOW ARE THEY MADE?

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Farm Prices And City Wages

Will H. Craig

"A lot of rot is going the rounds about the increased cost of living. The purpose is to show that the farmers are getting too much for their products. They forget that for years the farmers have been furnishing food at below production cost to the fellows who have been getting near wartime salaries and wages. Whatever raise there is in food prices is more on account of profiteers and distribution than in increased prices to farmers. The farmer gets 10 cents a gallon for milk. The consumer pays 40 cents. Where does the 30 cents go? It is probable that milk truck drivers in Indianapolis get more pay than the average teacher or preacher in this city. They belong to the union that has a strangle hold on the people.

"Under the 'new deal' efforts are made to restore salaries and wages to peak time prices of 1928 and advances are made in that line. But the farmers must be satisfied with prewar prices. A great howl goes up about prices of meat to consumers. But why? They did not so complain ten years ago when hogs were $11 and fifteen years ago when they were $20 a hundredweight. And now hogs are only $6 and the 'elect' are getting or trying to get the wages and salaries of the peak times. Too many want to maintain the high standard of living at some one else's labor and expense. A leveling process is needed to restore balanced conditions or normal prosperity will never return."

"Cost of Living",
Will H. Craig
Letter to Editor -
Indianapolis Star.
October 15, 1934.

Prices Are Relative

Editorial

"Prices are relative. Three cents a pound for hogs is high when the three cents will buy enough to compensate the farmer for his labor and his investment. Six cents a pound for cotton is high when it will do the same. But 12 cents for hogs and 15 cents for cotton is low when it fails to do that. Measured by that standard, the figures reveal that the Detroit strikers should be paying today twice what they are paying for pork.

"In 1920 when every industry in America was going full blast, hogs sold as high as $28 a hundred. The average was around $21.50. At that time, automobile workers in Detroit were getting 59.8 cents an hour. Today, hogs are selling for $12.40 and the Detroit worker is getting 70.9 cents an hour. The income of the farmer has been cut in two, but the income of the consumer in Detroit has increased. There is no record of the farmer objecting to this increase in pay.

"During the same period, when hogs were selling at $21.50 the farmer had to pay $50 for a corn planter to grow corn to feed his hogs, $85 for a wagon to haul the corn to the hogs, and $2,653 to the engineer of the freight train that hauled the hogs to market. Today, with hogs at $12.40, he pays $80 for the corn planter, $130 for the wagon, and the engineer gets $2,758. If the price of what the farmer has to buy came down with the price of what he has to sell, corn planters would be $25, wagons $42.50 and the engineer would get $1,405. In other words, if the Detroit strikers would cut their wages in half, as the farmers have done, then take 20 per cent off that, the farmer could meet their request that the price of hogs be reduced 20 per cent as they demanded.

"It is very true that there is much unemployment in the cities, and these figures apply only to those who are drawing wages. But the farms are not without their unemployed. By the time the farmer wrestles with floods and drouths, with hog cholera and chinch bugs, the hessian fly and boll weevil, and at the end of a long and discouraging season finds his labors fruitless and his investment sacrificed, he feels worse then unemployed. He must go on paying as much for seed and machinery and fertilizer whether men in the cities are working or not."

"Detroit Meat Strike"
Editorial
Memphis Commercial Appeal
August 26, 1935

<u>Distinction Between Administered And Market Price</u>

U.S.D.A. Bulletin

"In a free market, supply and demand determine price.

"In an administered market, price and demand determine supply.

"A market price is one which is made in the market as the result of the inter-action of buyers and sellers. The prices

of wheat and cotton are market prices, as are the prices of many other farm products.

"An administered price is essentially different. It is a price that is set by administrative action and held constant for a period of time. A company maintains a posted price at which it will make sales. Or it simply has its own prices at which buyers may purchase or not as they wish. These are administered prices. Many wholesale and most retail prices are administered rather than market prices.

"Thus, prevailing devices for price making work one way for the seller of manufactured and processed goods, and transportation and utility services, and another way for the seller of farm products. * * * *

"Farmers often say that they are obliged to buy in one market and sell in another. The market in which they buy, they observe, maintains comparatively rigid and inflexible prices. On the other hand, the market in which they sell is extremely sensitive to the influences of supply and demand conditions.

"On account of this apparent dual market set-up farmers find that for the commodities they buy they must pay a price which tends to vary but little as conditions change. Price for things bought by farmers does not decline in a falling market in anything like the proportion by which price for things they sell falls.

"When farmers complained of the disadvantage worked upon them by this functioning of what appears to be two separate markets, they have been told that the economic law of supply and demand makes it necessary.

"But it is a law that works one way for the seller of manufactured and processed goods, and transportation and utility services, and another way for the seller of farm products.

"Farmers are law-abiding, but for a long time they have been outspoken in their resentment of the way this assumed economic law acts. They have repeatedly challenged its principle, which their experience and their common sense have convinced them is wrong.

"In 1776 Adam Smith set forth in his "Wealth of Nations" the law of supply and demand. That law applied to conditions as Smith found them in his lifetime. Then people did business largely as individuals. The units were composed of workers who employed their own tools, one-man businesses, or business organizations so small that for most purposes they could be considered as one-man affairs.

"Up to 1933 most of agriculture still belonged in the Adam Smith picture.

"But the unit organization of factories, mills, public utilities, railroads, and other corporate enterprises had significantly altered. Today a large part of industrial activity has been concentrated into large units. Individual men who control the business policy of these large unit organizations can and do make production conform to price. They dictate industrial policy.

"Hence the type of price arrived at in the market in which they trade is one which represents the balancing of production and demand at a price. That is to say, they first decide upon the price at which they will sell their product or service. Price thus becomes an arbiter, not a result, as it is in the functioning of the law of supply and demand in a free market.

"In a free market, supply and demand determine price. In an administered market, price and demand determine supply."

"Administered Price and Market Price"
U. S. Department of Agriculture
G-47, October 1935

How Farm Prices May Be Influenced

B. H. Hibbard

"Prices, so far as any one social group is concerned, may be influenced in some half dozen different ways. (a) By accepting the central market price, fixed by impersonal economic forces, and getting the largest possible share of it through economies in methods of bridging the gaps between producer and consumer. (b) By changing the price level. (c) By changing the demand for the goods in question. (d) By eliminating some portion of the competition among producers, as by a tariff. (e) By establishing a private monopoly. To these may be added still another, opposite in the direction of effort, but the same in outcome so far as the individual is concerned, that of lowering cost of production.

"The first method, that of reducing costs and margins in marketing, has been tried from time immemorial, and will always remain but partially solved. Even so the successes attained in influencing prices received by farmers have been achieved mainly through cooperative effort, the roads to market have been shortened,

the number of hands through which goods pass have been reduced. The gain has been first to the farmers, and in many cases has later been shared by the consumer. It has put more money into farmers' pockets, partly by reducing the margins of grain buyers, but more by eliminating wasteful competition, substituting economic units for uneconomic units, to the ultimate advantage of all.

"The prices of farm produce may be influenced fundamentally only by conformity to economic law. In spite of all advantages to be gained through improved marketing, and they are many; in spite of economies in production, and they will always be basic in farm prosperity; in spite of whatever merit there may be in improved credit, and the tariff; in spite of all these it will be necessary to balance agricultural production against the demand for it."

"The Farmers' Influence Over Prices"
B. H. Hibbard
Journal of Farm Economics
January 1923

All Prices Must Be Adjusted To General Welfare

Henry A. Wallace

"It seems doubtful if the consumer ever will have anything important to say about the price and production policies of industry until every special interest in possession of a governmental grant or favor, is required to adjust its price and production policies in the light of the general welfare. If that goes for farmers, it ought also to go for great corporations.

"Nothing I have said should be construed as an attack upon individual industrialists or business leaders. Some critics interpreted my remarks recently on pigs and pig iron in that vein, and I am sorry they did so. I do not condemn the operator of a particular iron foundry for curtailing his production, or even for laying off men, if that is the only way he can stay in business. What I do condemn is the system which compels him to curtail production and to lay off men. What we all seek is the means of making it possible for him, as for every industrialist and every farmer, to produce an increased balanced production of those things which we all really need and want. Let us forget our

personal devils, fascinating though they may be, long enough to work out the kind of economic system that really will have abundance, rather than scarcity, as its mainspring. Let us work for increased, balanced production at prices low enough so consumers can buy yet high enough so producers can stay on the job, with due regard for our natural resources, and by means characteristic of our democratic processes."

"Do Consumers Protest Enough?"
Henry A. Wallace
Radio Address November 27, 1935

Increased Efficiency May Lower Prices

H. G. Moulton

"In short, increased efficiency makes possible lower prices, while the profit incentive insures the actual reduction of prices. The greatest profit to the business enterpriser is thus derived through giving to the masses the most for their money. The interest of the profit-maker, therefore, coincides with the welfare of the consumer.

"Under the pressure of competition not only is the selling price of commodities gradually and persistently reduced, but the process naturally involves the continuous elimination of obsolete, obsolescent, or otherwise inefficient high-cost, or marginal, establishments. The fit, as gauged by ability to sell at minimum price, alone survive; moreover, the efficient of today promptly become the inefficient of tomorrow. A particular business man, firm, or corporation may indeed survive over a long period of years, but only if the production methods employed keep always abreast of changing times.

"The gains resulting from increasing technological and operating efficiency are passed on to consumers through the medium of price reductions. If, for example, productive efficiency in general should increase 100 per cent over a period of, say, 25 years, costs--other things being equal--would be cut in two and prices would be reduced proportionatbly. Thus each dollar of monetary income would purchase progressively increasing quantities of goods. The expanding demand required to take the increasing quantities of goods off the markets would be automatically created by the reduction in prices.

"This method of expanding purchasing power does not, like wage increases, threaten insolvency to those who follow it. On the contrary, it is conceived to be the road to increasing profits. Instead of running counter to the principles of competition, it is the essence of competition."

- "Income and Economic Progress"
Harold G. Moulton
The Brookings Institution
September, 1935

Farm Price Solution Lies In Control Of Supply

J. S. Lawrence

* * * "The effect of changes in the general price level upon farm income has been exaggerated. The farmer profits by rising general prices and suffers during a decline. Of far greater importance to him than changes in the general price level are fluctuations in the prices of the particular commodities he produces. Stabilization of the general price level, while a distinctly favorable condition in a broad sense, is bound to prove an illusory remedy for the ailment of inadequate income. Solution lies rather in a control of the supply of farm products, however that may be achieved."

"Stabilization of Prices And The Farmer's Income"
J. S. Lawrence
"Farm Relief"
Annals of the American Academy of Political and Social Science
March 1929

A Reliable Measure Of Value Is Needed

G. F. Warren

"I hope that some permanent progress will also be made in the development of a more reliable measure of value for the future, so that our civilization will not be brought to the verge of ruin by violent price fluctuations. No unchangeable weight of a single commodity can ever make a reliable measure of value, because whenever the supply of it or the demand for it becomes abnormal, the whole price structure is unbalanced.

"The collapse in world prices was very rapid for three years and has been less rapid for two years. There is, as yet, no indication that prices have turned upward, but the most violent part of the collapse is apparently over. It is not likely that prices in gold will return even to the pre-war level, at least for a considerable time. It is probable that some rise ultimately will occur in prices expressed in gold, but this is likely to come after general world recovery has occurred, rather than as an aid to recovery."

Address, George F. Warren
Association Land Grant Colleges
November 22, 1934.

Costs Of Distribution Must Be Point Of Attack

T. W. Kain

"'Organized consumers, while protesting the cost of meat, do not want a reduction at the expense of the farmer or the laboring man,' Theodore Kain said after returning from a three-day consumers conference in Washington, N. J.

"'The excess costs of distribution must be the point of attack since distribution costs on many staples and necessities are half or more of the retail price,' he explained.

"'Farmers and workers who realize their common interests as producers and consumers can raise income to farmers and at the same time reduce living costs, which is another way of raising wages,' he said."

"Meat Sales Up Despite Prices"
T. W. Kain
Des Moines Register
August 22, 1935.

Consumers Control Prices Too

Henry A. Wallace

"Barring out farm product imports in 1935 would have been of very temporary advantage to farmers. The resulting rise in

domestic prices would have hurt consumers, who would have responded by buying less of that product. Within a short period of time the price would have climbed back down under the pressure of consumer resentment, and the farmer would be back where he was.

"We have seen that sequence of events again and again. Every dairyman knows that when butter gets above a certain price, consumers turn to margarine; live-stock men know that when one meat gets relatively higher than another, consumers turn to the meats still low in price."

"The Problems of a High-Tariff Creditor Nation"
Henry A. Wallace
Radio Address October 14, 1935

Domestic Agricultural Prices Are Fixed By World Prices

Peek and Johnson

"When supply equals demand, price of an article is its fair value in terms of things for which it is exchanged. Industry obtains fair exchange value because it can regulate supply to demand. Agriculture cannot regulate production to domestic demand because the elements are a factor and because there is no coordination among 6,000,000 producing units. It, therefore, produces a surplus. It cannot segregate surplus, divert it to export, and regulate supply to domestic demand because it is not organized to do so, and because its return is so small and precarious, that it cannot command sufficient finance. Therefore, surplus must be thrown on domestic markets, from whence it must be sold in the world's markets where its price is fixed by its cheapest competition without any regard whatever to its cost of production or its fair exchange value and sometimes below both.

"In both experience and theory this world price for surplus fixes the domestic price for the whole crop. Now, this competitive world price is usually fixed by production costs in countries which have no protective tariff, where the articles for which crop is exchanged are cheaper and living standards lower than in America.

"In world depressions, world crop price, and hence domestic crop price, become very low, due both to demoralized exchange rates and lowered world standards. For example, a mark is worth half a cent, but a German farm hand is not paid, at that rate. Low rates of exchange are not reflected in internal transactions. Apart from

exchange, living standards and production costs in other countries have lowered much faster and farther than ours. These combine to drop foreign costs of crop production far below our own. These abortively lowered costs fix the price of our crop at home.

"It is our delusion that protected industry will not so react to cheap competition and we are willing to raise tariffs or make them automatic to prevent it. Industry, therefore, resists reduction to the limit of its resource of finance and organization, while crop price falls immediately with world price and continues so to fall. There results a spread between crop and other prices in this country so great that the farmer cannot pay his debts and is almost completely deprived of buying power."

"Equality for Agriculture"
George N. Peek and Hugh S. Johnson
1922

The Tariff Lowers Farm Buying Power

T. W. Schultz

"But protection did one thing frequently overlooked. It set certain forces into motion that have slowly and silently lowered the relative buying power of the commodities that the farmer sells. Not only have these forces practically closed his foreign markets but they have, in addition, increased the cost of many of the goods that he buys. Thus gradually there has occurred an ever widening discrepancy between the things the farmer sold and the articles he bought."

"Agricultural Emergency in Iowa"
T. W. Schultz
Iowa State College Agricultural Experiment Station
1933

Tariff Effect On Prices Uncertain

J. D. Black

"Additional tariffs still within reason, although so high as to be almost completely prohibitive, might add 2 per cent to

the farm values of the protected products and 1 per cent to the average net farm incomes. But in so doing, they would make prices of these farm products more unstable than they are at present."

"Agricultural Reform In The United States"
J. D. Black
McGraw-Hill Book Co.
1929

Why Fluctuations In Agricultural And Non-Agricultural Prices Differ

John R. Commons

"These differences between the fluctuations in agricultural and non-agricultural prices are explained in part by the fact that manufacturers have been learning, during the past twenty years and especially since the war, how to stabilize their prices and thus partly to counteract changes in the value of gold. They are learning to manufacture only after orders are received, as merchants have learned to buy 'from hand to mouth', so that they do not pile up inventory in either finished goods or raw material. The farmer, however, starts producing six months or more ahead of his date of sale, and he has but little warehouse room of his own to hold the crop until orders arrive from consumers. Manufacturers, too, can lay off their workers and shut down their plants when prices fall, and take them on again and start up their plants when prices rise; and they have learned to accumulate reserves to pay interest and dividends when their plants are idle. But the farmer must keep his family going. He cannot stop feeding his live stock and thus retain former savings for reserves. * * * *

"The farmer has not obtained the power of collective control, and so is exposed to the danger of excessive crops and changes in the value of gold."

"Farm Prices and the Value of Gold"
John R. Commons
North American Review
January, 1928.

Every Element Of Farm Cost Must Be Analyzed

A. O. Fox

"There is another element incident to making present day farming a success, namely, the necessity for studying every element of the cost of production of every farm product, and the elimination of all operations and expenditures in the process of production which do not show a profit. This will no doubt be difficult to do, because it must be done daily in the farm work and there are yet very few young farmers with practical training in that part of farm work. The only producer who can sell anything profitably in the face of prevailing conditions is the man who is capable of keeping all of his costs low enough to be able, if necessary, to sell at correspondingly lower prices and still realize profits. This requires accurate and practical analysis of every operation and of every element of cost."

"What Is The Matter With Farming?"
A. O. Fox
Wisconsin Agriculturist and Farmer
September 13, 1930

Cannot Consider Farm Prices On Basis Of Cost

Robert Stewart

"The politician also has much to say about the cost of production in agriculture and insists that the farmer shall receive prices for his product which will return to him the cost of production and a reasonable profit. What is the cost of production? No one knows. It has not been standardized. It cannot be standardized. Agriculture is not a single industry but a group of industries.

"How much does it cost to produce a bushel of wheat? A very simple and apparently perfectly innocent question. It offers no serious difficulty to the layman. Yet, there is no more difficult and important question in the whole field of agricultural economics. To answer it is practically impossible, since the conditions under which wheat is produced vary so widely. It is then perfectly absurd to state that the farmer is not receiving the cost of production plus a reasonable profit when he sells at the prevailing price of wheat, no matter what it may be. Some farmers make good money when wheat is selling for $1.00 a bushel, while others would not make money if wheat were selling for $10.00 a bushel."

"The Marginal Farmer"
Robert Stewart
New Republic
May 28, 1930

Agricultural Prices Must Be Low If Products Are To Be Used Industrially

W. J. Hale

"We cannot reasonably expect a crude chemical mixture of nature to command a price approximately equal to that of its chief ingredient isolated and purified. A bushel of corn of 56 pounds, after certain processing, yields about 30 pounds of starch and about 15 pounds of residue used as cattle feed. Starch sells for about 3 cents per pound and yet the farmer at present is attempting to sell his corn for 80 to 90 cents per bushel, which is the highest price that its entire starch content could bring on the open market. Such a situation is not sound. If the price of corn were to be maintained at the excessive figure of 90 cents to $1.00 per bushel, the immediate urge of the chemist would become primarily that of cutting down the cost of the starch; that is, the chemist is driven to finding some other source of starch or synthesizing the starch itself -- an accomplishment which we may confidently expect in the near future. But in the light of such activity what hope has the farmer for continuing the cultivation of corn? It were far better for him to lower the cost of raising corn in order that the selling price might more reasonably approach its actual worth from a chemical standpoint.

"Now the actual worth of corn from a chemical standpoint and on present-day standards of value may be taken roughly at about 40 to 50 cents per bushel. This value is based chiefly upon the starch content of the corn at 1 cent per pound crude and the remaining portion of the corn per bushel at about 15 cents."

"When Agriculture Enters the Chemical Industry"
William J. Hale
Industrial and Engineering Chemistry
December 1930